

# BUSINESS CONDITIONS & FORECASTS

## A M A News Letter

AMERICAN MANAGEMENT ASSOCIATION, 330 WEST 42nd ST., NEW YORK, N. Y.

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### *The President's Scratch-Pad*

Probably at no time in our history has management been so subjected to the pressure of change as it is right now. These changes are occurring within management's own structure, but mostly in its relation to government and to labor. It would certainly be shortsighted of us not to realize that many of these changes are to be with us not only "for the duration" but are to become a permanent part of our way of life.

#### **Opening Drive On Closed Shop**

Among the significant developments in the field of industrial relations has been the increase in closed-shop labor agreements. In two of the most spectacular labor disputes of this year the principal issue was the closed shop, and in each case the unions got what they wanted—though perhaps not exactly in the manner they had expected; and in a number of other cases which have not enjoyed such conspicuous headlines unions have also won closed-shop agreements. If this marks a trend, and apparently it does, it has the profoundest implications for management. A new and more difficult phase of the labor movement that started in the middle 30's is evidently in prospect.

#### **Uncertainty in Employers' Minds**

Meanwhile, employers admit increasing uncertainty concerning labor relations in the face of a difficult Fall and Winter production schedule. The desire for enlightenment on the part of companies is reflected in the amount of interest displayed in the coming AMA Industrial Relations Conference scheduled for Philadelphia on October 1 and 2. Despite the fact that nearly all companies are busy with defense orders, the number of inquiries concerning the sessions and the number of registrations received have been very large and would indicate an exceptionally good attendance.

#### **All Managerial Talent Going To Washington?**

It's a common experience these days to telephone an acquaintance only to be informed that he has taken

a defense post with the government, and it happens regularly that you write to someone at his customary address and receive a reply from Washington stating that your correspondent is "temporarily in government work." One wonders whether any managerial talent is going to be left in industry at all.

Industry needs its good managers now—more than it has ever needed them; for that reason it is to be hoped that the government agencies are making good use of the men they are borrowing.

#### **Defense Program Mistakes**

It would be a remarkable thing if we accomplished the objective of our national defense program without some mistakes being made and without some strong criticism being voiced. But both have happened. Admitting, however, that an honest mistake is not unpatriotic and admitting that this is one of the few remaining countries in which criticisms need not be whispered, neither thing should be the cause of undue pessimism. By now we have learned the first principle of defense—namely, that it is better to overestimate your needs than to underestimate them. So far we have *underestimated* and are paying heavily for it. So far we have leaned a little too much toward halfway measures in cutting production of civilian goods—and we will pay for that too. But let the criticisms fly. The dollar-a-year men and the industrial experts who have been flayed by the columnists will eventually develop hides as leathery as the elected officeholders.

#### **Lo, the Poor Salesman**

When your company is loaded up with defense orders or when it can't get raw material to manufacture its products, what are you going to do if you're on the sales force? With salesmen, "all out" seems to mean something different from what it means to production men. Some salesmen in this position have been fortunate enough to find jobs within their own companies; others have worked into selling jobs in other companies not hit by the dearth of materials. By and large, however, com-

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### BUSINESS OUTLOOK

#### **Business Volume Mounts as Conflict Between Consumer and Defense Needs Grows Increasingly Acute**

The prediction of months ago that America in 1941 would be forced to make its choice between guns and butter has been borne out. The choice has been made—and it is guns. The result has produced a new type of American economy—a specious kind of prosperity in which all work and get paid well, but in which consumer goods become more and more difficult to obtain and in which prices inevitably mount and the cost of government increases in fantastic leaps and bounds.

A year ago the word "priorities" to most individuals (even to many business executives) was only a word. But now it is a reality, before us always. It is indeed the key factor in our defense effort. In some cases it is the cause of shutdowns, of unemployment in many areas, and of shortages of many types of manufactured goods everywhere. The conclusion is inescapable that as time passes the lot of both individuals and companies whose objectives do not coincide with the objectives of the defense program will not be an easy one.

Meantime, the total activity of business is being maintained at a good pace. While production of such goods as refrigerators, washing machines and automobiles is severely curtailed, that of war materials is being correspondingly increased. Demand continues to outrun supply in industries engaged in munitions production.

The cost-of-living index has risen to a new peak for the war period, and, while it is still only 6.4 per cent higher than in the pre-war month of August, 1939, it is difficult to imagine that this will be a permanent ceiling. Unemployment is at a new low for the year and has reached the lowest level since December, 1929. One prediction is that unemployment will continue to decline during the remainder of the year and may possibly be practically eliminated by the end of 1941.

# BUSINESS CONDITIONS & FORECASTS . . . .

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	Alexander Hamilton Institute	Brookmire, Inc.	Business Week
General Outlook	National income rose in July for the fifth consecutive month and reached the highest figure on record; preliminary information indicates that the national income showed further expansion in August. It seems likely that national income for 1941 may approach \$100 billion—which compares with a 1929 high of \$83 billion (Sept. 13).	The comprehensive Brookmire Business Index has decisively crossed its normal line this year for the first time in over a decade. The outlook is that defense work will run at a fever rate and inflationary influences will continue to operate; but more civilian lines will be curbed and more price controls invoked (September 6).	The <i>Business Week</i> Index has started up again—to regain lost ground; if strikes don't interfere, the probability is that it will edge upward toward the 160-level of six weeks ago. Although labor disputes may be troublesome, they are not likely to produce any long-drawn-out drop in the production curve (September 20).
Money and Credit	While the decline in bond prices has been gradual (averaging no more than a point in two months) and at no time in recent months have marked changes appeared, the undercurrent has suggested a definite tendency toward lower levels (September 18).	Commercial, industrial and agricultural loans have increased over \$1.7 billion in the past year. Since the next move in money rates will be toward some hardening, business men should rush any long-term financing at the present attractive rates (September 6-20).	As a result of (1) the rise in currency in circulation, (2) the increase in required reserves and (3) the boost in Treasury balances with Federal Reserve Banks, excess reserves of member banks have declined fairly consistently since last Fall; they may take a further drop shortly (September 20).
Security Markets	Stocks turned over on the New York Stock Exchange during the first eight months of 1941 dropped to a new low volume for the period since the 1929 boom, with 92,414,000 shares traded in this year as against 141,886,000 last year and 726,949,000 in 1929 (September 6).	The uptrend in corporation earnings remains a strongly supporting factor in the stock market. The increased tax rates will tend to moderate, rather than reverse, this trend (September 13).	The Standard Statistics index of 50 industrial stocks has declined from 103.3 to 101.2 in the past six weeks. In view of the current inflation scare, the sidewise movement that has taken place in stock quotations is something of a paradox (September 13).
Production	The seasonally adjusted index of industrial activity staged its second consecutive decline during the week ended September 6 and reached the lowest level since the week ended July 12, but it was still only 3% below the record peak reached at the end of July (September 20).	Statistics showing an 87% increase in machine-tool shipments so far this year attest the growing pressure to equip plants to produce armaments of all kinds (September 20).	There is plenty of business around to support the current level of industrial activity—or better; demand is far outrunning supply. Such non-defense industries as cottons, woolens, shoes, household furnishings are pushing up toward capacity along with such armament leaders as planes, ships, tanks (September 20).
Distribution	The cost-of-living index rose in August to a new peak for the war period but was still only 6.4% higher than in the pre-war month of August, 1939. The value of department store sales in July equaled the record peak reached in September, 1929, and the prospect is that a new record will be established this year (Sept. 6-20).	The boosts in wholesale quotations are being translated more and more into increased retail prices. Because of the heavy weight of food in the typical consumer's budget, the markups in this group, especially, are accentuating the upswing in the cost of living (September 20).	Normally, consumer purchasing at department stores keeps pretty close pace with the volume of income payments; thus, as the current buying panic wears off, the sales index may be expected to slide back toward the income figure. Yet if shortages will continue to pad the retail sales figures in coming months (September 13).
Construction	Building contracts in July were larger than in any corresponding month on record, with a gain of 52.8% over the volume in July last year. Consequently, building activity will continue to provide the manufacturing industry with good support for several months ahead (September 13).	Engineering construction awards topped the half-billion mark in August for the third month in succession. For the three months ending in August, the total of such awards was 108.2% above the same period of 1940 (September 13).	The modest decline that took place in the <i>Business Week</i> Index this week reflects the recession of construction awards from the record extraordinarily high levels (September 6).
Agriculture	Farm cash income from marketings and government benefit payments rose to a total of \$902,000,000 in July from \$798,000,000 in June and from \$708,000,000 in July last year (September 20).	Prices of farm products and foods have virtually soared. With the farmer raising his ante from 85% of parity, to 100%, and to 110%, a merry upward inflationary spiral is being generated (September 20).	One of the bright spots in the currently rosy business picture is the farming situation: Cash income of farmers during the last half of 1941 will run a billion dollars or more ahead of the same period of 1940. Though farm income in 1941 will be about 5% under 1929, farmers' purchasing power is 15% greater (September 13).
Commodity Prices	During the week ended September 12, the BLS price index of 28 basic commodities advanced sharply to 156.9—another record peak for the war period, and 43.9% higher than on the corresponding date last year (August, 1939=100). The prospect is that commodity prices will rise still further (September 13-20).	With the import group of commodities leading the pace, the commodity price rise gathered steam in the second quarter of 1941; previous highs were surpassed by wide margins. In view of the current advance in commodities, the time has passed for any arguments whether or not this is inflation (September 20).	Commodity prices have displayed persistent strength. The Moody average of 15 spot commodity prices has risen from 211.7 to 219.9 in the past six weeks, a gain of nearly 4%; and the Bureau of Labor Statistics records a rise of more than 7% in seven agricultural products (September 13).
Labor and Wages	The number of persons unemployed in the United States decreased in July to 5,155,000 and reached the lowest level since December, 1929. It is likely that unemployment will continue to decline during the remainder of this year, and it is possible that it will be practically eliminated by the end of 1941 (September 20).	The strike epidemic noted earlier in the year has subsided, and the situation is healthier now that Communist sympathizers have an incentive to facilitate the defense program. However, the bargaining position of the unions has been strengthened by the urgent need of labor and rising living costs (September 20).	Labor disputes may cut into defense production in the near-term future; indeed, this week's modest drop in the steel rate is partly due to minor strikes and slowdowns. Efforts of the S.W.O.C. to win union-shop status in four of the Little Steel companies may further endanger output (September 20).
Foreign Trade and Conditions	Exports of raw cotton from the United States in August declined to the unusually low figure of 34,967 bales and were exceeded by the quantity of foreign cotton imported into this country, amounting to 43,322 bales (September 20).	Revolts in occupied countries on the Continent, or elimination of Russia, might revive possibilities of peace (attended by economic readjustment); but events at this writing imply intensified war operations (September 20).	Nazi military expenditures in two years of the conflict have run to about \$40 billion. Industrial production in Germany appears headed for a new high, and the country is preparing to enter the third war Winter with fair supplies of all food essentials (September 20).

This digest covers the views of various authorities. It does not include any strictly confidential information or specific advices from the sources.

**Dun's Review**

Business has been hard put to improve on the record-high levels of August. Supply shortages and the changeover to defense prevented manufacturing from making full seasonal gains in early September. Still well above last year, retail trade is expanding more slowly as forward buying diminishes after the August rush (Sept.).

Bank clearings (23 cities) totaled \$27,125,130,000 in August, 4.8% below the July figure but 28.9% above last August. The adjusted Insolvency Index (failures), up again slightly for the second successive month, was 57.0 in August against 71.3 last year (October).

Stock prices traced a sideways course as trading remained dull; the industrial share average (Dow-Jones) stayed close to the 127-level through mid-September, slightly below a year earlier. One large new issue sent the August total of corporate flotations to a high for the year so far (September).

Order-placing is slower in some lines, but the tapering off has little significance in view of record backlogs. Supply shortages restrain the usual Fall expansion. Total output holds at a level about one-third above last year, although interruptions to non-defense production are more frequent (September).

Scare buying diminished in early September, but consumers' efforts to buy ahead of shortages and price and tax increases kept trade close to peak levels. The adjusted department store sales index (FRB) jumped 20 points to 135 in August; following this exceptional advance, trade lagged behind the seasonal rise (September).

Private building activity, residential and industrial, appears to have passed its peak. The value of all building permits issued in 215 cities in August was \$119,534,583, a drop of 23.3% from the 11-year high of \$155,874,613 set in the previous month (October).

Wholesale prices reached new high levels for the past four years. The daily average of 30 basic commodities showed a steady upward trend during the latter part of August and early September; at mid-month it was 147 (1930-1932=100), representing a gain of 28% over the 1940 level (September).

From June, 1940, through this past July, a total of 3,816,000 workers has been added to non-agricultural employment rolls. Further increases were indicated in August, as New York State factories reported working forces up an additional 3.2% over July (September).

**Cleveland Trust Company**

Protective purchasing is the ailment from which American industry is suffering—we have been stocking up too heavily and producing defense goods too slowly. Both defense and non-defense industries have bought ahead because they have feared materials would be scarce later on and costs would be higher (September 15).

Money in circulation has expanded rapidly in recent years until it is now at a level twice as high as that which prevailed in the prosperous era of the 1920's. At the end of July of this year, the total—amounting to \$9.7 billion—represented a huge increase of \$1.8 billion, or 23% during the preceding 12 months (September 15).

Last May the index of industrial production was 112, or 12% above the computed normal level; in June it was 17% above, and in July 18%. The preliminary figures for August show 18% above, unchanged from July (September 15).

Manufacturers' inventories are now the highest on record, both in value and physical volume. Goods in process of manufacture are about 50% above the level of a year ago, while raw materials owned by manufacturers are 20% higher. Finished goods in the hands of manufacturers are 5% smaller than a year ago (Sept. 15).

Congress is now considering an act of legislation—the Emergency Price Control Bill—that would attempt to limit commodity price increases on a broad angle. While an effective price control is difficult to achieve, our economic well-being may depend on a satisfactory solution of that problem (September 15).

Average weekly earnings in defense industries—and in many non-defense industries—are increasing a good deal faster than are the hours worked per week; in fact, nearly 50% of the pay increase of armament workers is accounted for by an increase in hourly earnings (Sept. 15).

**National City Bank**

The business situation is moving into a new phase. Heretofore defense and non-defense production have been rising together, but the up-trend in non-defense activity evidently is drawing to a close. However, continuous growth of the defense program provides assurance against any general recession (September).

Total loans and investments of reporting member banks are building up steadily, and in August exceeded \$29 billion for the first time. Commercial, industrial and agricultural loans have continued to forge ahead, and in the four weeks ended August 20 were more than \$1¼ billion above the peak of 1937 (September).

Total preferred and common dividends declared by 60 leading corporations in 1940 aggregated \$857,000,000, which was \$223,000,000 less than their combined tax bill. For every \$1.00 paid in dividends, \$1.26 was reserved for taxes (Sept.).

The aggregate effect of materials shortages evidently will be to apply a brake to the expansion of production and to change the pattern of industrial activity. In industries which still have sufficient materials in sight—e.g., cotton goods, woollens and shoes—operations promise to continue at a record level (September).

The boom in retail sales is an outstanding feature of trade reports. In recent weeks it has amounted to a rush by consumers to lay in supplies of many kinds—not only durable goods, but apparel as well (September).

The aggregate industrial capacity of the country is experiencing a growth never before equaled. Factory construction this year may be almost twice as great as in 1929, according to present estimates (September).

Price ceilings have already been set by O.P.A.C.S. on a number of agricultural products. Formal ceilings have been placed on hides, raw sugar, silk, combed cotton yarns, and animal hair; an informal ceiling has been set on rubber (September).

Further extensions of price ceilings have been made during the month, and the number of commodities on which ceilings have been fixed now totals 24. Maintenance of these ceilings will undoubtedly exert a substantial repressive effect upon the general upward price trend (Sept.).

Although more than 2,000,000 workers may be affected by plant shutdowns as a result of materials shortages, an effort will be made to shift to defense work with a minimum of intervening unemployment and dislocation of labor. The most acute dislocation will probably be experienced in the hosiery industry (September).



## Important Sessions to Bring Country's Personnel Executives to Phila., Oct. 1-2

One of the largest gatherings of personnel and industrial relations executives that has been seen in the East this year will take place at Philadelphia on October 1 and 2 when AMA holds its Special 1941 Personnel Conference at the Hotel Benjamin Franklin.

This Conference, which will bring together personnel executives from industrial centers throughout the country, will consider all the vital problems now confronting the industrial relations world. Coming at a time when the country is about to enter one of the most active production periods in its history, the sessions are expected to contain much of significance. Such current problems in industrial relations will be considered as: Wage Adjustments, Collective Bargaining, and Developing the Worker Force.

Arrangement of the sessions has been under the direction of the Vice President of the Association's Personnel Division, Harold F. North, Industrial Relations Manager, Swift & Company. The Association has been assisted in planning the sessions by the Philadelphia Chamber of Commerce and a committee of Philadelphia industrial relations executives.

The opening session on October 1 will feature an important statement by Thomas Roy Jones, President of American Type Founders, Inc., and Chairman of the Executive Committee of the American Management Association, on "Priorities of Industrial Relations—in These Times." He will be followed by Dr. C. Canby Balderston, Dean, Wharton School of Finance and Commerce, University of Pennsylvania, who will discuss "Wage Adjustments for Payroll Flexibility."

At a luncheon session the Deputy Minister of Labour, Canada, Bryce M. Stewart, will give an address on "Canada's Wartime Wages Policy."

Wednesday afternoon will be devoted to a discussion of methods of handling grievances. The subject will be approached from three different viewpoints by different speakers: the point of view of the employee, the employer and the mediator.

At a dinner on Wednesday evening, C. S. Ching, Director of Industrial and Public Relations, United States Rubber Company, and Member of the National Defense Mediation Board, will talk on "Some Observations on Present Industrial Relations Trends—Based on Experiences in Washington."

Thursday morning will be devoted to the subject of "Expanding the Working Force." Papers will be heard on Worker Selection, Training, and Development of Supervisors.

The Conference will conclude on Thursday afternoon with an off-the-record panel discussion headed by Waldo E. Fisher, Associate Professor of Industry, Wharton School of Finance and Commerce, University of Pennsylvania.

## Office Managers Plan Conference For Oct. 22-23

The AMA Office Management Division has announced its plans for the meeting that will take place on October 22 and 23 at the Hotel Pennsylvania, New York City. The sessions, which this year will be largely devoted to office administration problems arising out of increased defense production, are being planned under the direction of John Mitchell, Vice President, Courier-Citizen Company, and Vice President of the AMA Office Management Division.

Discussion and correspondence with office managers in different parts of the country have disclosed considerable concern over such problems as: Compensation of Office Employees During the Emergency, Control of Overtime, and Maintaining Proper Standards of Office Employment.

Tentatively the program is being arranged as follows:

Wednesday Morning, October 22. Office Management's Future: "Duties of Office Managers in Progressive Companies"; "What's Important in Equipment Today?"

Wednesday Afternoon, October 22. Emergency Salary Administration: "General Foods Salary Survey"; "Revising Job Descriptions to Comply with Wages and Hours Requirements"; "Control of Overtime."

Wednesday Evening, October 22. Dinner smoker: Maintaining the Office Force in the Present Emergency—or How to Keep Them Happy.

Thursday Morning, October 23. Stepping Up Office Production: "Effecting the Most Efficient Flow of Work"; "Improving and Standardizing Branch Office Methods"; "Improving Letter Writing."

Thursday Noon, October 23. Luncheon session: Paper Work of Priorities.

Thursday Afternoon, October 23. Coping with Today's Office Personnel Problems: "Ability and Aptitude Tests"; "Training New Office Workers"; "Company Manuals."

## Pre-Conference Surveys Disclose Production Needs

### Questionnaires to Members Reveal Problems Confronting Manufacturing Organizations

Careful surveys of members' needs are now being made by a Conference Planning Committee in preparation for the Production Conference that will be held in Pittsburgh at the Hotel William Penn on November 19 and 20. The committee is working under the direction of L. C. Morrow, Editor, *Factory Management and Maintenance*, and Vice President of AMA's Production Division.

Efforts are being made to reach all individuals in the AMA membership concerned with manufacturing operations so that the sessions will be wholly representative of members' interests. Present indications (based on summarization of questionnaires that have been returned) are that the Conference will discuss such problems as: Helping Subcontractors Reduce Costs; Getting the Most Out of Automatic Priority Extension; Problems Created by Insufficient Supervision; Night Shift Control Problems; Freeing Supervisors from Training Responsibilities; Conference Study Method of Training Foremen; Maintaining Records to Guarantee Priority Promises; Solving Inventory Control Problems to Insure Continuity of Production; Fitting Delivery Promises to Suppliers' Probable Performances; Securing Priorities for Essential Materials.

### The President's Scratch-Pad

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panies experiencing "defense depression" are being as easy on their salesmen as possible (if they can be helpful at all) and are using them in some capacities in which their knowledge of product uses comes in handy.

### Post Bellum

Quietly and on a very small scale a few companies have set some members of their executive staffs to considering the company's position when the war ends. Each company and each industry has its own particular problems in this respect, and there is nothing unpatriotic about studying these problems now, provided this does not interfere with defense production. Concerns that are discontinuing or greatly curtailing their regular items of production will want to know how large a market is going to exist when they resume regular operations. Others, especially those making consumer goods, do not want consumers' acceptance of their products to wane during the defense hiatus.

*Alvin E. Dodd*

